

Message Text

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ACTION EUR-12

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E.O. 11652: NA
TAGS: EFIN, CA
SUBJECT: QUEBEC FINANCING

BEGIN SUMMARY: HYDRO QUEBEC IS COMPLETING NEGOTIATIONS FOR \$500 MILLION SYNDICATED LOAN FROM CANADIAN BANKS. ADDITIONAL FINANCING PLANS FOR YEAR INCLUDE ISSUES IN EURODOLLAR MARKET, IN CANADA, AND POSSIBLY IN U.S. SINCE BEGINNING OF FISCAL YEAR, PROVINCE OF QUEBEC HAS COMPLETED FOREIGN ISSUES FOR \$233 MILLION IN JAPAN AND GERMANY. PROVINCE HAD PLANNED TO MEET ADDITIONAL REQUIREMENTS THROUGH MIXTURE OF FINANCING FROM CAISSE DE DEPOT AND ISSUES OF SAVINGS BONDS AND SHORT TERM OBLIGATIONS. SALES TAX DISPUTE WITH OTTAWA, HOWEVER, WILL ADD ANOTHER \$185 MILLION TO PROVINCE'S REQUIREMENTS. END SUMMARY.

1. HYDRO QUEBEC IS NOW COMPLETING NEGOTIATIONS FOR A \$500 MILLION SYNDICATED LOAN WITH CANADIAN BANKS. PACKAGE INCLUDES A SIX YEAR LINE OF CREDIT AND A SUBSEQUENT SIX YEAR LOAN. INTEREST WOULD BE AT PRIME RATE FOR FIRST THREE YEARS, AND AT ONE QUARTER PERCENT OVER PRIME FOR NEXT THREE YEARS. PACKAGE PRO-
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VIDES FLEXIBILITY, AS IT AMOUNTS TO REVOLVING CREDIT WHICH CAN BE DRAWN DOWN OR PAID OFF ANY TIME DURING FIRST SIX YEARS, AFTER WHICH TIME IT BECOMES FIXED. ACCORDING TO HYDRO QUEBEC SOURCES, APPLICATIONS FOR PARTICIPATION IN PACKAGE FROM BANKS TOTALLED \$700 MILLION.

2. FOR REST OF YEAR, HYDRO QUEBEC HAS PLANS FOR ISSUE IN EURO-

DOLLAR MARKET, HOPEFULLY FOR AS LONG AS 15 YEARS IF MARKET CONTINUES TO IMPROVE, AND FOR LONG TERM ISSUE IN CANADIAN MARKET AROUND MID-JUNE. WITH REGARD RETURN TO US PUBLIC MARKET, THERE HAS BEEN DIVISION WITHIN NYDRO QUEBEC OVER ADVISABILITY OF ATTEMPTING ISSUE THIS YEAR WHEN FUNDS ARE NOT REALLY NEEDED. PLANNING APPEAR TO BE OF ON AGAIN, OFF AGAIN VARIETY, WITH FINANCIAL MANAGERS TAKING FREQUENT READINGS ON US RECEPTIVITY. AT MOMENT, THINKING FAVORS ISSUE AFTER QUEBEC LEGISLATION, TENTATIVELY SCHEDULED FOR JUNE, IS INTRODUCED TO MODIFY HYDRO QUEBEC MANAGEMENT STRUCTURE. ISSUE WILL BE FOR N MORE THAN \$200 MILLION, POSSIBLY DIVIDED BETWEEN \$100 MILLION LONG TERM (20-25 YEARS), AND \$100 MILLION SHORTER TERM (8-10 YEARS).

3. PROVINCIAL GOVERNMENT' ISSUE IN JAPAN FOR 30 MILLION YEN (ABOUT \$150 MILLION) WAS PRICED AT 99.40 TO YIELD 6.48 PERCENT. ISSUE CARRIED 6.4 PERCENT CUPON, WITH MATURITY IN 1990. PRIOR TO JANAPNESE ISSUE, PROVINCE HAD COMPLETED DEBVENTURE OFFERING IN GERMANY. ISSUE WAS FOR 150 MILLION MAKRS, (\$83 MILLION CANADIAN), WITH 12 YEAR MATURITY. PRICE WAS 98.75 TO YIELD 6.9 PERCENT.

4. FEDERAL GOVERNMENT'S POSITION ON SALES TAX ISSUE AS IT NOW STANDS WILL INCREASE FINANCIAL REQUIREMENTS OF QUEBEC GOVERNMENT FROM \$1,250 MILLION TO TOTAL OF \$1,435 MILLION, BASED ON REVENUE AND EXPENDITURE ESTIMATES IN QUEBEC BUDGET. INCLUDING TWO ISSUES FOR TOTAL OF \$135 MILLION IN CANADIAN MARKET IN MARCH, AND JAPANESE AND GERMAN ISSUES, QUEBEC HAS NOW FINANCED \$368 MILLION OF ITS LIMITED OFFICIAL USE

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NEEDS. AT TIME OF BUDGET, PARIZEAU STATED THAT HE EXPECTED CAISSE DE DEPOT TO INVEST \$600 MILLION IN DEBT SECURITYIES OF PROVINCIAL GOVERNMENT AND TO OBTAIN ADDITIONAL REQUIREMENTS FROM ISSUE OF SAVINGS BONDS AND SHORT TERM 3-6 YEAR BONDS MARKETED DIRECTLY BY MINISTRY OF FINANCE. UNDER ORIGINAL ASSUMPTIONS, FINANCING FROM CAISSE PLUS AROUND \$100 MILLION FROM SAVINGS BONDS AND \$150 MILLION IN PROVINCE'S 3-6 YEAR OBLIGATIONS SHOULD HAVE BEEN ENOUGH TO DO TRICK. NOW, HOWEVER, IT APPEARS THAT PROVINCE MUST FIND SOURCE FOR ANOTHER \$185 MILLION. WITH CASH FLOW EXCEEDING \$1 BILLION, CAISSE DE DEPOT IS ALWAYS AVAILABILE, ALTHOUGH GOVERNMENT HAS STATED POLICY OF MAKING SOME OF CAISSE'S RESOURCES AVAILABLE TO PRIVATE SECTOR.

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